

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2014

Docket No. ACR2014

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO  
QUESTIONS 1-2, 3a-b, 3d, 4, 6, 7a-e, 8-9, AND 11-21 OF CHAIRMAN'S  
INFORMATION REQUEST NO. 1

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 1, issued on January 9, 2015. Each question is stated verbatim and followed by the response. The responses to Questions 3c, 5, 7f, and 10 are still being prepared.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. The following questions pertain to the quality of service link to terminal dues for Inbound Letter Post.
  - a. For CY 2013, please provide the final monthly and annual quality of service measurement results for the link to terminal dues provided to the Postal Service by the International Post Corporation (IPC) or its contractor.
  - b. For CY 2014, please provide the preliminary monthly quality of service measurement results for the link to terminal dues provided to the Postal Service by the IPC or its contractor.
  - c. For any month during CY 2014 for which the preliminary monthly quality of service measurement results for the link to terminal dues have not been provided to the Postal Service, please provide such preliminary monthly quality of service measurement results as they become available from the IPC or its contractor.

**RESPONSE:**

- (a) Please see CY 2013 material, filed under seal, as part of USPS-FY14-NP30 that accompanies this response.
- (b) Please see CY2014 material, filed under seal, as part of USPS-FY14-NP30 that accompanies this response.
- (c) No response required.

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2. The following questions concern inbound Express Mail Service (EMS).
  - a. Please provide the EMS Cooperative quarterly report card for CY 2013, Quarter 4.
  - b. Please provide the available EMS Cooperative quarterly report cards for CY 2014 provided to the Postal Service.
  - c. For any quarter during CY 2014 for which the EMS Cooperative quarterly report cards is not yet available, please provide such quarterly report cards as they become available.

**RESPONSE:**

- (a) Please see CY 2013, Quarter 4 material, filed under seal, as part of USPS-FY14-NP30 that accompanies this response.
- (b) Please see CY2014 Quarters 1 and 2 materials, filed under seal, as part of USPS-FY14-NP30 that accompanies this response.
- (c) No response required.

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3. The following questions concern inbound EMS and the Kahala Posts Group (KPG).
- a. Please identify the foreign postal operators that were members of the KPG during FY 2014, and which of those member posts entered inbound EMS into the U.S.
  - b. Please confirm that during FY 2014, the EMS Cooperative Pay-for-Performance Plan was applicable to all KPG members identified in your response to subpart a. above. If not confirmed, please identify KPG member posts that were not subject to the EMS Cooperative Pay-for-Performance Plan and explain why the EMS Cooperative Pay-for-Performance Plan was not applicable to each such KPG member post.
  - c. The KPG Strategic Services Agreement contains the conditions for date-certain delivery performance in which late delivery results in penalties in the form of a postage refund. Please provide all reports (fiscal year, calendar year, and quarterly reports) that measure the service performance of inbound EMS from KPG member posts during FY 2014 with respect to late deliveries, penalties and any other service performance metrics. Include in your response the number of late deliveries for which a postage refund was made and the total amount of such refunds in FY 2014 for each KPG member post.
  - d. Please identify where in Library Reference USPS-FY14-NP2 or elsewhere in the ACR the FY 2014 "booked" and "imputed" financial results for inbound EMS entered by KPG member posts can be found. Please provide such financial results if they are not presented in the FY 2014 International Cost and Revenue Analysis (ICRA) or elsewhere in the ACR.

**RESPONSE:**

- (a) The Kahala Posts Group members in FY2014 were: The United States Postal Service, Australian Postal Corporation, China Post Group, Correos Y Telégrafos SAE, Groupe La Poste, Hongkong Post, Japan Post Service Co., Ltd, Korea Post, Royal Mail Group Ltd, and Singapore Post Limited. All of the previously referenced foreign postal operators who were members of the Kahala Posts Group in FY 2014 entered EMS into the United States in FY2014.
- (b) During FY2014, the EMS Cooperative Pay for Performance Plan was applicable to the following KPG members: Great Britain, Hong Kong, Japan, Korea,

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Singapore, and United States. In FY 2014, the EMS Cooperative Pay for Performance Plan was not applicable to the following KPG members: Australia, China, France, and Spain. The EMS Cooperative Pay-for-Performance was not applicable to the aforementioned countries, because those countries opted not to participate in the EMS Pay-for-Performance Plan with the Postal Service.

- (c) Response still under preparation.
- (d) Please see the financial information, filed under seal, as part of USPS-FY14-NP30 that accompanies this response.

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4. The following question concerns the financial performance of Inbound Air Parcel Post (at non-Universal Postal Union (UPU) rates) and the International Money Transfer Service (IMTS)–Outbound product. For FY 2014, both the booked and imputed versions of the ICRA report a loss for Inbound Air Parcel Post (at non-UPU rates) and the IMTS–Outbound product. FY 2014 ACR at 47. The Postal Service states: “Both products involve complex issues, and the Postal Service continues to pursue opportunities for improvement.” *Id.* Please explain the causes of the loss for Inbound Air Parcel Post (at non-UPU rates) and the IMTS-Outbound product and how the Postal Service intends to improve the financial results for each.

**RESPONSE:**

With respect to Inbound Air Parcel Post (at non-UPU rates), the Postal Service gave serious consideration to the Commission's observations in the Annual Compliance Determination. However, upon review of the reciprocal elements of the exchanges, it was determined that the arrangement resulted in a net financial benefit as favorable rates on outbound flows outweighed losses on inbound flows. The Postal Service continues to pursue additional improvements in on-time performance through implementation of the EPG continuous improvement plan so as to improve the financial results for Inbound Air Parcel Post (at non-UPU rates) during FY 2015. The Postal Service and counterparties to EPG instrument are also engaged in the process of examining alternatives to the existing arrangement, but as this is still in early stage of discussion, there are no concrete developments that can be reported at this time.

With respect to the IMTS-Outbound product, as the Commission is aware, this product has a long history of challenges associated with determining the product's attributable costs with confidence. Focus this fiscal year is being placed on potential changes to the larger domestic money order service. Opportunities for improvements for the international money order services are expected to arise in that process.

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6. The following questions concern the International Money Transfer Service (IMTS).
- a. For the IMTS–Outbound product during FY 2014, please provide the total number of In-Office Cost System (IOCS) tallies, the coefficient of variation (CV) for the IOCS-based cost estimate, and the 95 percent confidence interval for the cost coverage.
  - b. For FY 2014, no volume variable or product-specific costs are reported for the IMTS–Inbound product. See Library Reference USPS-FY14-NP2, Excel files “Reports (Booked).xls” and “Reports.xls,” worksheet tabs A Pages (c), Tables A-2 in each file. Please explain why no FY 2014 volume variable and product-specific costs for the IMTS–Inbound product are reported. If such costs were incurred, please provide them.

**RESPONSE:**

- (a) For IMTS-Outbound, there were five (5) IOCS tallies, and the coefficient of variation for the IOCS-based cost estimate is 44 percent. See response to part b regarding revisions to final revenues and costs. The 95 percent confidence interval for the cost coverage after revisions is from 56 percent to 300 percent.
- (b) A single Inbound IMTS tally was inadvertently excluded from the calculations, resulting in all of the costs erroneously being attributed to Outbound. The correct IMTS costs and revenues are provided under seal as part of USPS-FY14-NP30.

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7. The following questions concern revenues and transaction volumes for the IMTS–Inbound product. The Postal Service states that revenue reported for the IMTS–Inbound product represents fees the Postal Service receives from certain foreign postal operators for cashing their inbound international money orders. Such fee revenue is reported in General Leger Account 43317: Money Order Fees–Commission for Redeeming International Foreign Issue, net of any Postal Service payments to foreign postal operators for international money orders issued by the Postal Service that are cashed by such operators.
- a. For FY 2014, please confirm that the Postal Service has bilateral agreements for international money transfer services (*i.e.*, international money orders) with the following foreign postal operators (or countries): Montserrat, St. Kitts, British Virgin Islands, Bahamas, Barbados, Japan, Peru, St. Vincent, Belize, and Dominica. If not confirmed, please identify the foreign postal operators with which the Postal Service has bilateral agreements for international money transfer services.
  - b. For FY 2014, please specify which of the foreign postal operators identified in response to subpart a., have a bilateral agreement with the Postal Service that provides for a commission or other payment for cashing international money orders.
  - c. For any foreign postal operators identified in subpart a., but not identified in subpart b., please explain how the Postal Service is compensated by such operators when their international money orders are cashed at post offices.
  - d. For FY 2014, please provide the fee revenue from the foreign postal operators identified in response to subpart b., the face value of the associated international money orders cashed, and the associated transaction volume.
  - e. Given that IMTS–Inbound product revenue reported in General Leger Account 43317 is a net amount, please provide the Postal Service payments to each foreign postal operator identified in subpart b., for cashing international money orders issued by the Postal Service.
  - f. Please confirm that Postal Service fee payments to foreign postal operators are a cost to the Postal Service for the cashing of Postal Service-issued international money orders by such operators, and should be treated as a cost in the ICRA. If not confirmed, please explain why such fee payments to foreign postal operators should not be treated as costs in the ICRA.

**RESPONSE:**

- (a) Confirmed.
- (b) Belize, Dominica, Japan and Peru.



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- (c) The bilateral agreements with Montserrat and St. Vincent only authorize outbound international money orders, therefore, no inbound money orders from those postal operators are cashed by the Postal Service. For the others, no compensation is paid to either operator for cashing international money orders exchanged between them.
- (d) Please see the file ChIR1.Q.7.resp.pdf, filed under seal, within USPS-FY14-NP30.
- (e) Please see the file ChIR1.Q.7.resp.pdf, filed under seal, within USPS-FY14-NP30.
- (f) Response to this subpart is still being prepared.

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8. The following question concerns Market Dominant Global Direct Entry with Foreign Postal Administrations. In Docket No. R2013-1, the Postal Service added a \$0.01 handling charge for foreign-origin, inbound direct entry First-Class Mail Machinable Single-Piece Letters, Single-Piece Postcards, Single-Piece Flats, and Single-Piece Parcels tendered by foreign postal operators, subject to the terms of an "authorization arrangement."<sup>2</sup> The handling charge took effect January 27, 2013, and remained in effect during FY 2014.
- a. Please identify the foreign postal operators that entered foreign-origin, inbound direct entry items pursuant to an authorization arrangement during FY 2014.
  - b. Prior to Commission regulation of market dominant products pursuant to the PAEA, the Postal Service concluded arrangements for global direct entry with eight foreign postal operators. Please identify the foreign postal operators with arrangements that predate the PAEA, and explain whether any of those arrangements were superseded by an authorization arrangement during FY 2014.
  - c. Refer to Library Reference USPS-FY14-NP2, Excel file "Reports (Booked).xls," worksheet tab A Pages (md), Table A-2. Please provide the financial results for those Global Direct Entry with Foreign Postal Administrations shown in Table A-2 separately for foreign postal operators that entered global direct entry items pursuant to arrangements that predate the PAEA and for those with authorization arrangements concluded during FY 2014.

**RESPONSE:**

- a. No postal operators entered foreign-origin, inbound direct entry items pursuant to an authorization arrangement during FY 2014.
- b. The foreign postal operators with Direct Entry arrangements that predate the PAEA are Australia Post, Austria Post, Belgian Post, Deutsche Post, La Poste – France, Poste Italiane, Singapore Post, and Swiss Post. In January and February 2014, the Postal Service notified the remaining foreign postal operators that had recently entered foreign-origin inbound direct entry items pursuant to arrangements that predate the PAEA

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<sup>2</sup> Docket No. R2013-1, United States Postal Service Notice of Market-Dominant Price Adjustment, October 11, 2012, at Attachment A at 4, 5, 13, 15.

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(Deutsche Post, Swiss Post, La Poste – France, Belgian Post and Singapore Post) that their existing Direct Entry arrangements would terminate on May 1, 2014. At that time, the Postal Service sent these foreign postal operators draft authorization arrangements. Among those foreign postal operators, the Postal Service developed an authorization agreement only with Deutsche Post during FY 2014 which became effective in the beginning of FY 2015.

- c. All of the financial results shown at USPS-FY14-NP2, Excel file “Reports (Booked).xls,” worksheet tab A Pages (md), Table A for Global Direct Entry with Foreign Postal Administrations are for pre-PAEA arrangements. The financial results are shown in ChIR 1 Q 8c GDEI Calcs.xls, filed under seal as part of USPS-FY14-NP30.

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9. The following question concerns the FY 2014 International Cost and Revenue Analysis (ICRA) report and the Foreign Postal Settlement (FPS) system. Inbound revenue reported in the imputed version of the FY 2014 ICRA differs from inbound revenue reported in the booked version of the FY 2014 ICRA, or the Revenue, Pieces and Weight (RPW) report. In addition, costs for outbound products reported in the imputed and booked versions of the FY 2014 ICRA differ.
- a. The Postal Service has previously identified technical and other issues that precluded the Postal Service from reporting international revenues and costs by product in a single or unified version of the FY 2013 ICRA that is consistent with the Postal Service's financial statements.<sup>3</sup> Please discuss Postal Service actions during FY 2014 to resolve the technical and other issues identified in the Postal Service Response to CHIR No. 6, question 6(b).
  - b. Please confirm that the Postal Service has no plans to prepare a single or unified version of the FY 2015 ICRA that is consistent with the Postal Service's financial statements. If not confirmed, please explain and discuss the priority the Postal Service attaches to preparing a single or unified version of the FY 2015 ICRA (or any future fiscal year).

**RESPONSE:**

- (a) The Postal Service did not perform any actions during FY2014 to resolve the technical and other issues identified in the Postal Service Response to CHIR No. 6, question 6(b).
- (b) Not confirmed. The Postal Service plans to submit analytic methodology change proposal(s) during FY15 providing for the production of a single, unified ICRA. Imputations will continue to be required in cases where data are not available, but the results will be consistent with the Postal Service's financial statements.

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<sup>3</sup> Docket No. ACR2013, Responses of the United States Postal Service to Questions 1-9 of Chairman's Information Request No. 6, February 18, 2014 (Postal Service Response to CHIR No. 6).

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11. The Postal Service states that the passthrough for [Standard Mail] Automation AADC Letters is 136.5 percent. FY 2014 ACR at 21. However, Library Reference USPS-FY14-3, Excel file "FY14.3 Worksharing Discount Tables.xlsx," tab 'Standard Mail Letters' reports a passthrough of 137.5 percent for Automation AADC Letters. Please reconcile the two reported amounts.

**RESPONSE:**

The 136.5 percent figure in the ACR text reflects a transcription error. The correctly calculated number is the 137.5 percent figure in the spreadsheet.

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12. Library Reference USPS-FY14-3, Excel file "FY14.3 Worksharing Discount Tables.xlsx," tab 'Standard Mail Flats' reports different avoided costs for commercial Automation 5-Digit Flats (\$0.085) and nonprofit Automation 5-Digit Flats (\$0.049). Please explain why these two categories have different avoided costs.

**RESPONSE:**

The avoided cost for NP 5-D Flats was reported incorrectly on the spreadsheet, and should have been the same \$0.085 as its Commercial counterpart. With corrected cost avoidance, the Nonprofit passthrough drops from 175.5 percent to 101.2 percent.

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13. Library Reference USPS-FY14-3, Excel file "FY14.3 Worksharing Discount Tables.xlsx," tab 'Standard Mail Flats' reports that the discount for nonprofit Automation 5-Digit Flats exceeds avoided costs. However, the FY 2014 ACR does not discuss this discount. Please provide an explanation for why this discount exceeds avoided costs and provide a statutory justification pursuant to 39 U.S.C. § 3622(e).

**RESPONSE:**

Please see the response to Question 12 of this Information Request, which indicates that the correct Nonprofit passthrough figure is 101.2 percent. This passthrough results from the requirement that Nonprofit workshare discounts be the same as their Commercial counterparts, which is the case in this instance. Therefore, the explanation provided on page 24 of the ACR with respect to Automation 5-Digit Flats applies equally to both the Nonprofit passthrough and the Commercial passthrough.

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14. Please provide an Excel spreadsheet showing all offices under suspension in FY 2014, including the following data for each such office:
- a. Office Name
  - b. Office Type (PO, Station, Branch or other)
  - c. EAS-level or POSTPlan level, as applicable
  - d. City
  - e. State
  - f. Zip Code
  - g. Date Suspended
  - h. Date Reopened (if applicable)
  - i. Suspension Reason
  - j. Discontinuance Proposal Posting Date
  - k. Date of Community Meeting
  - l. Date of Posting of Final Determination to Discontinue (if applicable)

**RESPONSE:**

The requested spreadsheets are filed in USPS-FY14-43.



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15. Please provide Excel spreadsheets including Office Name (or other appropriate identifier), Unit Type (Community Post Office (CPO) or Contract Postal Unit (CPU), Location (City and State), and 5-Digit ZIP Code for the following:
- a. CPUs and CPOs in existence at the beginning of FY 2014
  - b. CPUs and CPOs newly established in FY 2014
  - c. CPUs and CPOs closed in FY 2014
  - d. CPUs and CPOs in existence at the end of FY 2014

**RESPONSE:**

The requested spreadsheets are filed in USPS-FY14-43.

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16. Please provide a copy of the Collection Point Management System (CPMS) database as of the end of FY 2014.

**RESPONSE:**

The requested spreadsheets are filed in USPS-FY14-43.

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17. How many Automated Postal Centers (APCs) were in operation as of the end of FY 2014? Please describe any formal plan(s) for the addition of more APCs during FY 2015.

**RESPONSE:**

As of the end of FY 2014, 2,843 Automated Postal Centers (APCs) were in operation.

Currently, there are no plans for further additions this year.

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18. Please provide an update for FY 2014 of the table entitled, "Retail Revenue by Channel" as shown in Postal Service Response to CHIR No. 1, question 5.<sup>4</sup>

**RESPONSE:**

<b>Channel</b>	<b>FY2014 Revenue</b>	<b>Share of Total Retail Revenue</b>	<b>Change from FY2013</b>
Post Offices	\$11,005,893,283	57.77%	-0.47%
PC Postage	\$5,021,077,288	26.35%	16.16%
Stamps Only Sales by Retail Partners	\$1,229,879,621	6.46%	5.40%
Automated Postal Centers (kiosks)	\$380,206,510	2.00%	-15.34%
Stamps by Mail/Phone/Fax	\$95,453,913	0.50%	-2.63%
Contract Postal Units	\$147,644,446	0.77%	0.70%
Click-N-Ship	\$533,272,489	2.80%	1.61%
Other	\$638,778,799	3.35%	24.95%
<b>Total Retail Revenue</b>	<b>\$19,052,206,349</b>	<b>100.00%</b>	<b>4.24%</b>

<sup>4</sup> Docket No. ACR2013, Responses of the United States Postal Service to Questions 1-3, 5-10 and 12 of Chairman's Information Request No. 1, January 13, 2014 (Postal Service Response to CHIR No. 1).

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19. Please provide the proportion of collection boxes for which the last mail pick-up time is:
- a. Midnight to 11:59 a.m.
  - b. Noon to 2:59 p.m.
  - c. 3:00 p.m. to 4:59 p.m.
  - d. 5:00 p.m. to 6:59 p.m.
  - e. 7:00 p.m. to 11:59 p.m.

**RESPONSE:**

<b>Last Pick-Up Time Range</b>	<b>Percentage</b>
a. Midnight to 11:59 a.m.	20.3%
b. Noon to 2:59 p.m.	29.8%
c. 3:00 p.m. to 4:59 p.m.	32.9%
d. 5:00 p.m. to 6:59 p.m.	16.7%
e. 7:00 p.m. to 11:59 p.m.	0.3%
<b>TOTAL</b>	<b>100%</b>

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20. Please provide an update of Library Reference USPS-FY13-NP28 for FY 2014.

**RESPONSE:**

Please see the requested information, filed under seal, as part of USPS-FY14-NP30 that accompanies this response.

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21. Please provide the number of POSTPlan level 2, level 4, and level 6 offices where the realignment of office hours pursuant to POSTPlan had not yet taken place by October 1, 2014.

**RESPONSE:**

As of October 1, 2014, there were 3,058 Level 2, 4, and 6 Remotely Managed Post Offices where the realignment of office hours pursuant to POSTPlan had not yet taken place.